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Economic Opportunity Institute

Setting Priorities in Washington: Raising revenue to invest in our future

Continued state budget cuts are dragging down Washington's economy, undermining opportunity for our children, and threatening the health of our most vulnerable citizens. We can choose a better path that builds a stronger future for our state.

Over the past three years, Washington's budget has been slashed by roughly $6 billion. Reductions affect everyone– with larger classes and fewer staff in public schools, higher tuition and fewer course offerings at universities and community colleges. And with 137,000 people on the wait list for the Basic Health Plan, fragile seniors losing in-home services, and low-income children losing quality childcare, budget cuts will also mean more layoffs in every community in the state.

During its 2011 session, Washington's legislature will be adopting a supplemental budget for the final months of the 2009-2011 budget (which runs through June 2011), and a new two year 2011-2013 budget beginning in July 2011. With the effects of the recession lingering, forecasts for anticipated public revenue is well short of the need for services. Accordingly, Governor Gregoire has recommended even deeper cuts that will further harm state citizens and weaken the fragile economic recovery.

It doesn't have to be this way. Hundreds of special tax breaks passed during economic boom times drain billions from public services. Once passed, most are never scrutinized again. It's time to reprioritize tax breaks and decide which ones are more important than investments in education, health care, and the structures that build a more prosperous future for all Washingtonians.

Below is a sampling of possible exemptions to axe and sins to tax.

New Revenue Options in the 2011-13 Budget

New Revenue Options for Washington	2011-13 Revenue
Bank B&O mortgage deduction Since 1970, credit agencies can deduct interest earned from loans for first mortgages on residential property. No evidence that the tax savings is passed on to consumers, and big banks are profiting.	**$167.8 million[2]**
Instate portion of interstate transportation Public Utility Tax tax is not charged on the transportation of goods or people if any part of the trip is out-of-state. JLARC recommends ending the exemption. 46 states and DC already tax.	**$59.7 million[1]**
Instate portion of interstate transportation where goods stop in Washington Two PUT deductions similar to the one above were enacted in 1937 specifically dealing with goods transported from one part of the state to another for storage or processing, then transported out of state. JLARC also recommends ending it.	**$49.6 million[2]**
Investment earnings of non-financial firms, B&O deduction Businesses that receive interest, dividends, and capital gains income but are not engaged in banking or other financial activities as their primary business (generally less than 5% of annual income), may deduct that income when calculating their B&O tax. Most states tax such income through corporate income taxes. JLARC reviewed in 2009, and noted that multi-state businesses could avoid. Excludes personal income.	**$442.4 million[4]**
Repeal B&O exemption for agriculture; family farm credit of $400 per month Farms with gross receipts under $1 million would be exempt.	**$46.4 million**
Sales tax on out-of-state coal	**$23.7 million[3]**
Sales tax on items used in interstate commerce (taxed in 16+ states) Air, rail, and water transportation companies engaged in interstate or foreign commerce are exempt from sales tax on fuel and other items. U.S. Supreme Court has ruled that states may tax such items, and many do. JLARC review in 2008 found no clear purpose for the exemption.	**$609 million[4]**
Sales tax on custom software (taxed in 11+ states) Would not include “canned” software such as Microsoft products.	**$261.7 million[2]**
Sales tax on non-organic fertilizers and sprays	**$82 million**
Sales tax on security brokers	**$106.5 million**
Sales tax on cosmetic surgery	**$13.5 million**
Increase hazardous substance tax from .7% to 2% of wholesale value	**$468.3 million**
Wholesale tax of 0.5 cents per ounce on bottled beverages (not milk, milk substitutes, or juice)	**$560 million**
Increase cigarette tax $1.25 per pack	**$100 million[5]**

***Sources**: 1 JLARC estimate. 2 DOR estimate for 2009-11. 3 Fiscal note for H.B. 3077.*
4 Based on JLARC estimate. 5 Estimate based on receipts from last year’s $1 increase.